



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PPD 730.5.35.1

April 11, 2007
07-PPD-011(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Guidance on Reporting the Results of Desk Reviews of Low-Risk Incurred Cost Submissions

Effective immediately, auditors are required to issue a memorandum to the Administrative Contracting Officer (ACO) instead of a report to communicate the results of performing a desk review of low-risk incurred cost submissions not selected for audit. This change is based on our determination that a memorandum is the more appropriate reporting mechanism under the Generally Accepted Government Auditing Standards (GAGAS). As such, a report for desk reviews should not be issued. However, if significant questioned costs are identified during the desk review of the low-risk incurred cost submission, the desk review should be converted to an audit and an audit report will be issued upon completion.

APPS is being modified to replace the proforma report with a memorandum to report the desk review results. We have also modified the desk review program to include a step directing the auditor to convert the assignment to an audit if significant questioned costs are identified. Changes to the CAM are also underway to reflect these changes. Until APPS is modified, auditors should use the enclosed proforma memorandum (Enclosure 1) and desk review program (Enclosure 2). Additionally, we recommend that the FAO brief the cognizant ACO on this revision to Agency policy.

FAO personnel should direct questions to their regional personnel. Regional personnel may direct questions to Policy Programs Division, at (703) 767-2270.

/Signed/
Kenneth J. Saccoccia
Assistant Director
Policy and Plans

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Enclosures
a/s

**PROFORMA MEMORANDUM FOR REPORTING
RESULTS OF DESK REVIEWS OF LOW-RISK INCURRED COST SUBMISSIONS
NOT SELECTED FOR AUDIT**

MEMORANDUM FOR ADMINISTRATIVE CONTRACTING OFFICER

SUBJECT: Fiscal Year (FY) 20[XX] Determined Final Indirect Cost Rates and Recommended Direct Costs for [*Contractor Name, Address*]

Based on a risk assessment, [*Contractor Name*]'s ([*Contractor Acronym*]) FY 20[XX] incurred cost proposal was not selected for audit. However, we did perform the following procedures:

- determined that [*Contractor Acronym*]'s proposal was free of any mathematical errors;
- determined that [*Contractor Acronym*]'s proposal was certified by its top management officials that it does not include unallowable costs (see Enclosure 1);
- performed a cursory review of the proposal for unusual items, potential significant questioned costs, and audit leads requiring follow up;
- performed a cursory review of the proposal to determine if there were any significant changes from the prior year's proposal that required follow up;
- ensured that the corporate/home office audit results were incorporated, if applicable,; and
- requested the contractor to adjust the provisional billing rates for the reviewed year(s) to agree with the determined rates.

Based on our risk assessment and application of these procedures, we found no significant exceptions to [*Contractor Acronym*]'s FY 20[XX] proposed indirect expense rates and direct costs. Enclosure 2 is the FY 20[XX] Final Indirect Cost Rate Agreement for [*Contractor Acronym*]. Attachment 1 to Enclosure 2 is the cumulative allowable cost worksheet (CACWS) for the listed contracts. For those contracts identified as "Ready to Close," the information on the CACWS should be used to close out those contracts. Individual contract audit closing statements will only be issued if requested.

Upon request, we will provide accounting counsel and any additional auditing services the contracting officer may require. Please contact [*Name*], Supervisory Auditor, at [*telephone number*] or fax [*fax number*].

[*FAO Manager Name*]
Branch Manager
[*FAO Name*]

Enclosures:

Certificate of Final Indirect Costs
Final Indirect Cost Rate Agreement

Enclosure 1

Master Document – Audit Program

Activity Code 10100		Incurred Cost – Non-Major Desk Review
Version No. 3.0, dated April 2007		
B-1	Planning Considerations	
Purpose and Scope		
1. The purpose of this evaluation is to establish final indirect cost rates for low-risk incurred cost submissions not selected for audit.		
2. This program is intended to provide for the proper planning, performance and reporting of the incurred cost evaluation of a low-risk nonmajor contractor having \$15M or less ADV. The steps in the program should reflect a documented understanding between the auditor and supervisor as to the scope required to comply in an efficient and effective manner with DCAA objectives.		
Other Planning Considerations		
1. Upon receipt, the contractor's incurred cost submission should have been evaluated for adequacy using the "Guide for Determining Adequacy of Contractor Incurred Cost Proposal" (located in Other Audit Guidance (OAG) under Code 10100). If the submission was previously determined to be adequate and upon closer review is determined to be inadequate, the submission should be returned to the contractor.		
2. If significant questioned costs are identified during this evaluation, the desk review should be converted into an audit and performed accordingly.		

B-1	Preliminary Steps	W/P Reference
Version No. 3.0, dated April 2007		
1. Review the "Risk Determination for Contractor Years with \$15 Million or Less ADV" form to determine if the proposal is still low risk.		
2. Coordinate low risk classification/desk review decision with the ACO.		

C-1	Review Steps	W/P Reference
Version No. 3.0, dated April 2007		
1. Ensure that a "Certificate of Indirect Costs" has been executed by the contractor and a copy is included in the working paper file.		

Master Document – Audit Program

2. Scan the proposal for unusual items, obvious potential significant questioned costs and audit leads that need follow-up.	
3. Scan the proposal to determine if there are any significant changes from the prior year's proposal that need follow-up.	
4. Verify the mathematical accuracy of the contractor's proposal.	
5. Determine if the submission includes significant corporate/home office cost allocations and incorporate the corporate/home office audit results (this may require suspending the desk review until the corporate audit is complete).	
6. If significant questioned costs are identified during this evaluation, the desk review should be converted into an audit and performed accordingly.	
7. Upon completion of the evaluation, inform the contractor of the requirement to adjust its provisional billing rates for the year evaluated to match the determined rates.	

A-1	Concluding Steps	W/P Reference
Version No. 3.0, dated April 2007		
1.	Summarize results for supervisory review.	
2.	Obtain supervisory review of working papers.	
3.	Prepare an indirect cost rate agreement letter and prepare or have the contractor prepare the cumulative allowable cost worksheet (CACWS).	
4.	Prepare the draft memorandum to the ACO to report the determined/recommended rates and recommended direct costs.	
5.	Update permanent files with the executed rate letter and cumulative allowable cost worksheet.	
6.	Prepare and review accuracy of dollars examined for DMIS reporting.	